Summary of McDermott Proposal on Measuring Poverty
July 2008

Current Policy

The process for setting poverty thresholds and measuring poverty rates has remained essentially the same since the 1960s, with annual adjustments for inflation. The original threshold was set at three times the cost of a "minimal" food budget.

McDermott Proposal

In general, the McDermott proposal creates two new "modern" poverty calculations, each using a revised poverty threshold: (1) before taxes and transfers; and (2) after taxes and transfers. Accompanied by the current (which the proposal deems the "historical") calculation, these three rates would be annually reported by the Census Bureau. (Note that the Weller bill proposed a similar three-part poverty calculation – maintaining the current "partial benefits" rate along with revised "full benefits" and "full benefits and taxes" rates.)

Revised poverty threshold

The revised poverty threshold for a family would be pegged at the average spending in the prior three years of the median family of the same size in the area on food, clothing, and shelter including utilities. In practice, this appears designed to translate into the level of *total spending* of similarly sized families in the area who are at about the 33rd percentile of the spending distribution. To the degree that a family's *income* (as defined below) falls short of this *spending* level, it would be determined to be officially poor. Because spending levels of median families have nothing to do with "poverty" per se, this revised poverty threshold would change the poverty calculation from its current *absolute* measure of whether a family has some minimally sufficient level of resources into a *relative* measure of whether low-income families are keeping pace with the spending habits of middle income families. Also, since the poverty threshold would rise more than income (due to the counting of additional benefits, as described below), more Americans would be considered officially poor under this revised calculation.

Calculation of Family Income BEFORE taxes and transfers

Includes (1) earnings from work, (2) interest, dividends and capital gains, (3) retirement, disability and survivor payments, (4) alimony and child support payments MINUS (5) alimony or child support paid, (6) out of pocket health expenditures, and (7) work expenses such as child care or transportation.

Calculation of Family Income AFTER taxes and transfers

Same as the "before taxes and transfers" amount above PLUS (8) refundable Federal tax credits, (9) cash welfare/TANF, (10) SSI, (11) food stamps, (12) housing benefits, (13) periodic Social Security, federal retirement, black lung or VA benefits, (14) other Federal means-tested benefits used to meet food, clothing or shelter/ utility expenses MINUS (15) Federal income or payroll taxes paid.